

Peeler Project Frequently Asked Questions

What is the relationship between SMEC and the Peeler family?

Over the past 40 years, SMEC has leased and mined a small portion of 7,300 acres from the Peeler family to supply its coal-fired power plant. During this time, San Miguel has taken great care in operating as a careful steward of the land – land that we care about and that is part of our commitment to provide South Texans with safe, dependable and affordable electricity to power their homes and businesses.

What concerns do the Peelers have regarding their relationship with San Miguel?

The Peelers have said that they are unhappy with the amount of time it has taken to reclaim a pit that constitutes one percent of the leased acreage. The Peelers also say that SMEC's operations have tainted groundwater quality on their property.

What about assertions that SMEC is not properly reclaiming and returning the Peeler land to a usable state after its operations cease at the site?

The Railroad Commission of Texas, one of the industry's primary regulatory agencies, has established timelines for reclaiming property and holds millions of dollars of financial assurance (posted by San Miguel and guaranteed by the Cooperative Finance Corporation) should San Miguel fail to live up to its obligations. It is important to note, however, that San Miguel IS in full compliance with those regulatory timelines. These established timelines have been a part of San Miguel's publicly available permit – a permit the Peelers have never protested, despite the fact that it is subject to notice and an opportunity for protest at least every five years.

San Miguel has already reclaimed the vast majority of the leased land from the Peelers, returning it to "as good as or better than" we found it.

What is SMEC doing in response to address the Peelers concerns regarding reclamation efforts?

San Miguel has attempted to expedite reclamation by dewatering the pit, but now the Peelers are threatening to block San Miguel's access to the property if we continue to do so. In response to their concerns, San Miguel has agreed to temporarily suspend dewatering activities and explore dewatering strategies with the Peelers. We have every interest and desire to move ahead with addressing this issue to everyone's satisfaction and as quickly as possible.

What about claims that SMEC operations have contaminated groundwater on the Peeler property?

SMEC has data suggesting the presence of some constituents in the groundwater wells located on SMEC's property at the power plant. The groundwater contamination at the power plant is regulated under two sets of regulations: the CCR Rules (since the

contamination is associated with CCR units), and the Texas Risk Reduction Program (TRRP), which is administered by the Texas Commission on Environmental Quality (TCEQ). Both regulations require SMEC to investigate the nature and extent of the contamination, and ultimately partake in corrective action.

TRRP, in particular, is a comprehensive and complex regulatory program requiring extensive assessments to be performed. Every stage of the process – from assessment to selection of the remedy – involves comprehensive reporting to and approval from TCEQ. SMEC has provided notice to TCEQ of its evidence of contamination in the shallow groundwater-bearing unit, and pursuant to TRRP and the CCR Rules, it is performing the necessary assessment work, which to date has included the installation of numerous wells beyond the boundary of the power plant to determine the nature and extent of the contamination.

These types of investigations are iterative, meaning the investigation builds on data that is generated during the investigation process. The results of this investigation will be submitted to TCEQ for review and approval. SMEC will then move to the corrective action phase. SMEC will comply with both TRRP and the CCR Rules in addressing the groundwater contamination associated with the power plant.

SMEC is also monitoring groundwater conditions at the mine and, if groundwater contamination does exist, SMEC will address the issue in accordance with environmental laws.

It is important to note that San Miguel has retained a team of highly qualified experts to follow a scientifically sound methodology to assess the situation. San Miguel and these experts will continue to work closely with state and federal regulators to ensure that all regulations are being met and human and health and the environment are protected.

What kind of environmental practices does SMEC have in place?

Mining operations are regulated by no less than 20 state and federal agencies. In Texas, the industry is primarily regulated by the Railroad Commission of Texas (RRC) and TCEQ. San Miguel works closely with these agencies to ensure compliance throughout every stage of the mining process.

During reclamation, the last phase of mining, the RRC requires that the reclaimed land complete three phases of “bond release” before return to the landowner. During this time, a mining site’s soils, water and vegetation are analyzed and monitored to ensure they meet sustainable use standards, as the RRC conducts monthly inspections of reclaimed and active mining areas throughout the entire permit area. After bond release, a five-year extended responsibility period requires that vegetation ground cover and productivity standards be met for a minimum of two years using normal agronomic practices.

Why would SMEC consider condemning part of the Peeler's land?

San Miguel would prefer to avoid using condemnation to guarantee continued access to the Peeler land to continue generating electricity for rural Texans and to meet its reclamation obligations and to work cooperatively with the Peelers, which San Miguel has done successfully for more than 40 years. However, the Peeler's threat to prevent San Miguel from accessing the leased land puts San Miguel at risk of violating state and federal regulations, which include critical facilities necessary to protect human health and the environment.

What will happen if the case goes to court?

If this case does go to trial, we are confident a jury will find that the allegations the Peelers assert in their petition are not accurate. The evidence will show that San Miguel's actions have been done pursuant to valid permits and pose no threat to human health or the environment.

About the San Miguel Electric Cooperative

San Miguel Electric Cooperative's power plant and nearby lignite mine produce 391 megawatts of affordable, reliable electricity for our nine member cooperatives across 42 South Texas counties. As a small, rural and member-owned organization, we have provided a reliable source of power to hundreds of thousands of Texans over four decades, ensuring the stability of a well-functioning power grid and supporting the agricultural economy of South Texas. We invest heavily in advanced technology to monitor and minimize emissions from our power plant. In fact, San Miguel has spent more than \$125 million on environmental controls (and additional millions in environmental restoration) since the power plant opened in 1982.

Over its proud 37-year history, San Miguel has added more than \$100 million in property, school, and county taxes, which has provided critical support to local schools and critical services and infrastructure. Each year San Miguel remains open, it contributes approximately \$1.8 million a year in local taxes with an additional \$3 million in payroll taxes. In addition, San Miguel provides more than \$68.7 million in payments to the state's economy.